

TARIFF ACTION MEMORANDUM

File: TA37-998

Date: November 8, 2021

Date TA Filed: October 1, 2021

Utility: Alaska Universal Service
Administrative Company (AUSAC)

Statutory End Date: November 15, 2021

Tariff Recommendations:

The Commission should retain the ten percent surcharge factor for the Alaska Universal Service Fund (AUSF) for 2022. In addition, under 3 AAC 53.320, the Commission should approve AUSAC's proposed 2022 operating budget for administering the AUSF.

Reasons for the above indicated recommendation:

See attached memorandum.

Signed:  Title: Common Carrier Specialist
Claire Knudsen-Latta

Commission decision re this recommendation:

| | DATE (If different than 11/8/2021) | I CONCUR | I DO NOT CONCUR | I WILL WRITE A DISSENTING STATEMENT* |
|----------|--|-------------------|--------------------|--|
| Pickett | _____ | <u>RMP</u> | _____ | _____ |
| Kurber | _____ | <u>KKT</u> | _____ | _____ |
| Scott | _____ | <u>AGS</u> | _____ | _____ |
| Sullivan | _____ | <u>RMP for DS</u> | _____ | _____ |
| Wilson | <u>11/09/2021</u> | <u>JWW</u> | _____ | _____ |

Special Instructions to Staff: _____

*If this column is initialed, Staff will contact the Commissioner for the statement; otherwise, the dissent will simply be noted at the close of the By Direction Letter Order.

STATE OF ALASKA
The Regulatory Commission of Alaska
701 West 8th Ave., Suite 300
Anchorage, Alaska 99501-3469

M E M O R A N D U M

To: Robert M. Pickett, Chairman
Keith Kurber II
Antony G. Scott
Daniel A. Sullivan
Janis W. Wilson

Date: November 8, 2021

File: TA37-998

From: Claire Knudsen-Latta
Common Carrier Specialist

Subject: Alaska Universal Service Administrative Company (AUSAC) 2022 Alaska Universal Service Fund (AUSF) surcharge factor.

RECOMMENDATIONS

1. The Commission should retain the ten percent surcharge factor for the Alaska Universal Service Fund (AUSF) for 2022.
2. Under 3 AAC 53.320, the Commission should approve AUSAC's 2022 budget for administering the Alaska Universal Service Fund.

PROCEDURAL HISTORY

The AUSF was established by regulation in 1999 (3 AAC 53.300 - 3 AAC 53.399).¹ The programs supported by the AUSF at that time included Dial Equipment Minute (DEM) weighting, State Lifeline (SLS), Public Interest Pay Telephones (PIPT), Local Exchange Carrier of Last Resort (COLR) and Carrier Common Line (CCL). The AUSF is funded by a surcharge on public utilities and other voice carriers that provide intrastate telecommunications service. These entities must pay the surcharge on their annual intrastate gross revenues from end users, for the services listed in 3 AAC 53.340(a) (i.e. local, long distance, cellular, Voice over Internet Protocol (VoIP), etc.).² The AUSF surcharge may be passed through and collected from a company's end users.³ AUSAC is a member-based non-profit association that has been designated by the Commission to administer the AUSF.⁴ Pursuant to 3 AAC 53.340(d), AUSAC is required to calculate and recommend an AUSF surcharge factor by October 1 of each year for the following calendar year.

¹ See Orders R-97-005(7)/R-97-006(7)/U-98-168(1), Order Adopting Regulations and Changes to Manual; Opening Docket to Consider AUSF Administrator; and Establishing Meeting and Filing Requirements (November 23, 1998); and R-97-005(8)/R-97-006(8)/U-98-168(2), Order Adopting Regulations and Manual Amendments: Addressing Implementation Issues; and Requiring Filings (December 30, 1998).

² See 3 AAC 53.340(a). A public utility that provides intrastate telecommunications service to the public, or to those classes of users as to be effectively available to the public for a fee, shall pay the surcharge to the AUSF.

³ See Orders R-97-005(8)/R-97-006(8)/U-98-168(2), Order Adopting Regulations and Manual Amendments; Addressing Implementation Issues; and Requiring Filings (December 30, 1998) at 13.

⁴ See Order U-98-168(8), Order Designating AUSAC as Administrator of the AUSF, Amending and Approving Audit

On October 24, 2018, the Commission revised the regulation on AUSF that capped the AUSF surcharge at 10%, effective January 1, 2019; eliminated support for SLS and PIPT; implemented a two-year stepdown in DEM support for remaining eligible rural carriers; recast CCL and COLR as Essential Network Support (ENS) that would be capped at 2016 CCL and COLR support levels for each qualifying local exchange carrier (LEC) beginning January 1, 2019; and adopted the federal definition for remote areas to reduce ENS support in non-remote areas. The Commission also adopted a sunset deadline of June 30, 2023, for the AUSF.⁵

In addition to the required October 1 annual filing, 3 AAC 53.340(d) also provides AUSAC an opportunity to recommend quarterly adjustments to the AUSF surcharge factor, as necessary. Any recommended adjustments to the surcharge factor must be approved by the Commission prior to implementation.

In compliance with 3 AAC 53.340(d), on October 1, 2021, AUSAC submitted TA37-998 showing a calculation of the 2021 AUSF surcharge factor at 30.3%. However, this is above the 10% surcharge cap set out in 3 AAC 53.340(d). Therefore, AUSAC requests that the AUSF surcharge factor remain at 10%, and the AUSAC 2021 operating budget be approved, effective January 1, 2022.⁶ As a result, AUSAC has not submitted revised tariff sheets with TA37-998.

The Commission issued a public notice of TA37-998 on October 5, 2021, with public comments due November 5, 2021. No comments were received by the Commission.

DISCUSSION

2022 AUSF Surcharge Factor

The AUSF surcharge factor is calculated based on the ratio of the total amount of estimated disbursements paid out of the AUSF for the supported programs over the total annual gross revenues from intrastate end users subject to the AUSF surcharge.⁷ Authorized miscellaneous disbursements, AUSAC's estimated 2022 operating budget, and a cash working capital adjustment factor (CWC Adj. Factor) are also included in the estimated amount of annual disbursements from the AUSF.

Plan, Specifying Changes in AUSAC's Quarterly Disbursement Report, Requiring Public Report Section to be Added to Website, and Closing Docket (May 20, 2004).

⁵ See Order R-18-001(5), *Order Adopting Regulations*, dated October 24, 2018. The regulations were signed by the Lieutenant Governor on November 21, 2018.

⁶ See tariff advice letter, filed October 1, 2021, by AUSAC, with TA37-998 (TA37-998).

⁷ 3 AAC 53.340(d).

$$\text{AUSF Surcharge} = \frac{\text{DEM} + \text{ENS (COLR + CCL)} + \text{Misc.} + \text{AUSAC Budget} + \text{CWC Adj. Factor}}{\text{Gross Annual End User Revenue}}$$

In TA37-998, AUSAC calculated an AUSF surcharge factor of 30.34% for 2022. However, consistent with the revised 3 AAC 53.340(d) that capped the AUSF surcharge factor, AUSAC requests approval of a surcharge factor of 10%. Table 1 below shows AUSAC's calculation of the surcharge factor for 2022, compared to the calculation of surcharge factor approved in 2021 midcourse correction calculated in TA35-998.⁸

Table 1

| | | 2022 TA37-998 | 2021 TA35-998 | Variance |
|----|--|--------------------------|--------------------------|-----------------|
| 1 | DEM Weighting Support | \$0 | \$0 | \$0 |
| 2 | State Lifeline Program | \$0 | \$0 | \$0 |
| 3 | PIPT Support | \$0 | \$0 | \$0 |
| | ENS | | | |
| 4 | COLR Support | \$7,460,305 | \$7,460,305 | \$0 |
| | CCL Support | | | |
| 5 | Non-Pooling Companies | \$10,570,513 | \$10,570,513 | \$0 |
| 6 | Pooling companies | \$4,890,886 | \$4,890,886 | \$0 |
| 7 | Miscellaneous AUSF Disbursements | | | |
| 8 | AUSAC Budget | \$115,137 | \$119,019 | (\$3,882) |
| 9 | Total Estimated Disbursements (Lines 1+2+3+4+5+6+7+8) | \$23,036,841 | \$23,040,723 | (\$3,882) |
| 10 | Cash Working Capital Adjustment Factor | \$15,117,485 | \$13,066,766 | \$2,050,719 |
| 11 | Total Estimated AUSF Support (Lines 9+10) | \$38,154,326 | \$36,107,489 | \$2,046,837 |
| | | | | |
| 12 | Gross Annual End User Revenues | \$125,747,305 | \$121,337,241 | (\$4,410,064) |
| 13 | AUSF Surcharge Rate (Line11/Line12) | 30.34% | 29.76% | |

Staff has reviewed AUSAC's calculation of the proposed AUSF surcharge factor and believes that it accurately reflects the Commission's calculation requirements found in 3 AAC 53.340(d). As will be explained below, Staff believes the calculations reveal that the increase in the surcharge factor is mostly due to the increase of the working capital adjustment factor, which serves as a buffer in case of a shortfall in the disbursement and the significant decrease in projected end user revenues.

Disbursements

Staff analyzed the 2022 payments projected for each of the AUSF support programs and will be discussed individually.

DEM Weighting Support (Line 1 of Table 1)

Consistent with revised 3 AAC 53.350(b), the DEM Weighting Support has been eliminated.

State Lifeline Support (Line 2)

Consistent with revised 3 AAC 53.350(a), AUSAC eliminated the Lifeline Support.

⁸ See TA37-998, Attachment A, Schedule 1.

PIPT Support (Line 3)

Consistent with revised 3 AAC 53.350(a), AUSAC eliminated the disbursements for PIPT Support.

ENS

(a) COLR Support (Line 4)

Consistent with revised 3 AAC 53.346, AUSAC retained the COLR support at the amount received for the year ending December 31, 2016.⁹

(b) CCL Support – Non-pooling Companies (Line 5)

Consistent with revised 3 AAC 53.346, AUSAC retained the CCL support for non-pooling companies at the amount received for the year ending December 31, 2016.¹⁰

(c) CCL Support – Pooling Companies (Line 6)

Consistent with revised 3 AAC 53.346, AUSAC retained the CCL support for pooling companies (noncompetitive ILECs) at the amount received for the year ending December 31, 2016.¹¹

2022 AUSAC Operating Budget (Line 8)

Pursuant to 3 AAC 53.320, each year AUSAC is required to submit its budget for administrative costs, including its compensation for administering the AUSF for approval. The Commission can only approve AUSAC's operating budget if it is found to be reasonable and in the public interest.¹² AUSAC proposes an administrative budget for 2022 of \$115,137, which is approximately \$3,900 less than proposed in 2021, \$119,019. This is primarily driven by a \$4,000 decrease in administrative support expenses.¹³

Administrative Support Expense. AUSAC budgeted 967 labor hours per month to administer the AUSF in 2022, a decrease of 77 hours from the 1,044 monthly hours projected in 2021 (TA35-998) and re-assigned work from the director to the financial assistant, reducing the hourly labor cost.¹⁴

Insurance Expense. AUSAC projected a 5.9% increase to insurance expenses for its Directors and Officers for inflation, from \$12,364 in 2021 to \$11,618 in 2022.¹⁵

Based on the above, Staff believes that AUSAC's operating budget for 2021 is reasonable, and that it is in the public interest to approve the proposed budget to ensure that AUSAC can properly administer the AUSF. Therefore, Staff recommends that the Commission approve AUSAC's requested administrative budget of \$115,137 for 2022.

⁹ See TA37-998, Attachment A, Schedule 2.

¹⁰ See TA37-998, Attachment A, Schedule 3.

¹¹ See TA37-998, Attachment A, Schedule 4.

¹² See 3 AAC 53.320(a)-(c).

¹³ See TA37-998, Attachment A, Schedule 5.

¹⁴ See TA37-998, Attachment B, page 1.

¹⁵ See TA37-998, Attachment B, page 1.

Cash Working Capital Adjustment Factor (Line 10)

Historically, the Commission has required AUSAC to maintain a Cash Working Capital Allowance that is 1.5 times its monthly expenses.¹⁶ The Cash Working Capital Allowance is then netted against the estimated cumulative AUSF balance surplus (i.e., the net of fund inflows and outflows) to come up with a Cash Working Capital Adjustment Factor.¹⁷

AUSAC states that the 2021 distribution is experiencing a shortage and is expected to increase by the end of the year for a total of \$12,253,271.60.¹⁸ In TA37-998, AUSAC used a factor of 1.5 times its monthly expenses for the Cash Working Capital Allowance. Also in this filing, AUSAC netted the Cash Working Capital Allowance with the 2021 deficit to come up with the Cash Working Capital Adjustment Factor. Table 2 below demonstrates how AUSAC calculated the Cash Working Capital Adjustment Factor in TA37-998.

Table 2:

| | Cash Working Capital Adjustment Factor | TA37-998 |
|---|--|-----------------|
| 1 | Estimated AUSAC Monthly Expenses ¹⁹ | \$1,910,142 |
| 2 | Cash Working Capital Factor | 1.5 |
| 3 | Cash Working Capital (Line 1 x Line 2) | \$2,865,213 |
| | | |
| 4 | 2021 Distribution Shortage | (\$12,253,272) |
| 5 | Cash Working Capital Adjustment Factor (Line 3 – Line 4) | (\$15,117,485) |

As demonstrated above, the annual projected revenue balance will not meet AUSAC's estimated monthly expenses without the cash working capital factor. Staff believes that the working capital adjustment factor is concluded to accurately calculate what the surcharge would need to be to avoid a shortfall absent the 10% cap placed on the surcharge by 3 AAC 53.340(d).

Estimated Gross Annual End User Revenues (AUSF Contribution Base) (Line 12)

AUSAC predicts that the estimated gross end user revenues, on which the AUSF surcharge is assessed, will decrease in 2021. AUSAC projects a \$125,747,305 contribution base for 2022. This compares to the contribution base of \$138,179,710 for 2021.

AUSAC estimates the contribution base, assuming that the decline of end user revenues experienced by the carriers over the past years, will continue at the same pace in 2022. For the 2020 reporting period (September 2019 through August 2020), the carriers reported end user revenues of \$147,467,914, compared to \$136,178,585 for 2021 reporting period (September 2020 through August 2021), a decrease of 7.66%. This decrease was driven by significant decreases in both local (approximately \$3,000,000) and wireless (approximately \$9,000,000) revenues.²⁰

¹⁶ See Order U-99-133(1), *Order Suspending Tariff Filing for Six Months and Expanding Confidential Handling of Documents* (November 19, 1999); and Staff Memorandum for TA2-998, dated November 18, 1999.

¹⁷ Conversely, if the estimated cumulative AUSF balance is projected to be at a deficit at year-end, the Cash Working Capital Allowance is increased by the forecasted deficit.

¹⁸ See TA37-998, Attachment A, Schedule 6.

¹⁹ In TA37-998, AUSAC based the monthly expenses on 1/12 of the estimated 2022 support filed with TA37-998. See TA37-998, Attachment A, Schedule 6.

²⁰ See TA37-998, Attachment A, Schedule 7.

Request for Retention of Current Surcharge Rate

AUSAC calculated a surcharge factor of 30.34% for 2022, which exceeds the cap established in 3 AAC 53.340(d). Therefore, AUSAC does not request any change to the currently approved surcharge factor of 10%.²¹

Staff believes that AUSAC's request to retain a surcharge factor of 10%, regardless of the calculated surcharge factor, which is above the cap established in 3 AAC 53.340(d), is consistent with the regulation.

Shortfall Projections

The order of disbursement of the AUSF is subject to the conditions set out in 3 AAC 53.350(e), which includes nonpayment of claims that remain unpaid for more than six months.²² In the case of a fund shortage in any month, the funds are distributed first against administrative costs, then against prior unpaid support, and lastly against current support. Currently 2021 remittances have been applied first against the 2021 administrative costs then against the 2020 unpaid support claims. AUSAC has begun dropping unpaid support claims deemed non-payable due to the six-month drop policy starting with the August 2020 unpaid support.²³

Staff believes that AUSAC projected the amount of shortage in accordance with 3 AAC 53.350(e).

CONCLUSION

Staff has reviewed the 2022 operating budget for the estimated total amount of AUSF support payments and the operating budget for administering the fund proposed by AUSAC in TA37-998 and believes that they accurately reflect the requirements found under revised 3 AAC 53.340(d). There were no tariff sheets filed in TA37-998.

In addition, Staff also recommends that the Commission approve the AUSAC's 2022 operating budget for administering the Alaska Universal Service Fund filed with TA37-998.

Signature: 
Email: bob.pickett@alaska.gov

Signature: 
Keith Kurber II (Nov 8, 2021 14:54 AKST)
Email: keith.kurber@alaska.gov

Signature: 
Email: antony.scott@alaska.gov

Signature: 
Janis W. Wilson (Nov 9, 2021 09:19 AKST)
Email: janis.wilson@alaska.gov

²¹ See TA28-998, Letter Order L1800490, dated December 7, 2018.

²² 3 AAC 53.350(e) states in pertinent part:

The administrator shall disburse the AUSF in the following order of priority: (1) administrative costs; (8) other universal service support programs listed in (a) of this section, oldest claims first, pro-rated among claimants within a monthly accounting period based on the total unpaid claims for that period; (9) valid claims for universal service support accrued before March 17, 2018; except for those claims, the administrator may not pay any claim that remains unpaid more than six months after accrual.

²³ See the audited financial statements for years ending December 31, 2019 and 2020, filed October 26, 2021, with the packet for the Board of Directors Meeting, at PDF page 81.